STATE OF MISSISSIPPI
DEPARTMENT OF FINANCE AND ADMINISTRATION

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 03.00.00
SECTION		ISSUANCE DATE JUNE 30, 1999
SUB-SECTION	INDEX	REVISION NUMBER 99-004

FUNDS

The fiscal resources of the State of Mississippi are organized and recorded in numerous accounting entities known as funds, which are established by law or administrative action for either general or specific purposes. Funds do not imply the physical segregation of cash and/or investments. Funds are groups of accounts which record and control the transactions of state government agencies established for the purpose of carrying out programs in the public interest. The names and assigned numbers of Mississippi funds are set forth in section 7 of this manual.

INTERRELATION OF FUNDS AND AGENCIES

As accounting entities, funds record the fiscal activity generated by state agencies. An agency may account for its resources and activities in one or more funds. State agencies administer funds pursuant to the statutory or administrative authority which established the funds.

INTERGOVERNMENTAL RELATIONS

The State of Mississippi maintains fiscal relations with the United States government and with general and special purpose units of local government within the state.

Hundreds of grants and contracts exist between the State and agencies of the federal government. Most of these agreements require the sharing of costs for joint programs within Mississippi. The State must make an accounting periodically to the federal government to demonstrate the proper use and administration of the funds.

Local governmental units within Mississippi derive their powers and authority from the State. Fiscal relationships are created through distribution of state resources to local government. Federal funds are frequently passed through by the State to units of local government. School districts utilize state resources to construct new facilities and to provide a minimum foundation program of education. Furthermore, local governmental units often function as agents of the State in various fiscal roles.

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.10
SECTION	GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE JUNE 30, 1999
SUB-SECTION	INTRODUCTION	REVISION NUMBER 99-004

INTRODUCTION

This section presents the principles of accounting which underlie the Mississippi agency accounting policies and procedures relative to presentation of statewide financial statements prepared in accordance with GAAP. Each principle is stated, followed by appropriate discussion of the rationale, applicability and possible trends relevant to each particular area of governmental accounting.

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.20
SECTION	GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE APRIL 30, 2003
SUB-SECTION	FUND ACCOUNTING	REVISION NUMBER 03-003

FUND ACCOUNTING

The diverse nature of state governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all financial transactions and balances in a single accounting entity. Unlike a private business, which is accounted for as a single entity, the State is accounted for through several separate funds , each accounting for designated assets, liabilities, and equity or other balances. Thus, from an accounting and financial management viewpoint, the State is a combination of several distinctly different fiscal and accounting entities each having a separate set of accounts and functioning independently of other funds.

Financial transactions for all state agencies should be recorded in self-balancing groups of accounts established as funds by law or administrative action. The fund is the basic fiscal and accounting entity of the State of Mississippi. The term "fund" has a dual meaning in governmental accounting, referring both to financial resources in general and to the fiscal and accounting entity "recording cash and/or other resources together with all related liabilities and obligations, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations."

The self-balancing feature of each fund is accomplished through the double entry method of accounting. This technique embodies the inherent control features of the accounting equation. For each fiscal and accounting entity (fund) there should exist a ledger of accounts. The classification and recording of each transaction - i.e., each entry to the ledger - should satisfy the accounting equation. It follows that the sum of all debit entries in the ledger must equal the sum of all credit entries, and the fund is thereby self-balanced. The treatment of specific transactions will be discussed in appropriate sections of the MAAPP manual. An organizational unit's participation and accountability within a fund will be discussed in the procedure dealing with appropriation, other expenditure authority and budgetary accounting.

The number and types of funds within the State of Mississippi are controlled by legislative and administrative action. As a matter of principle, the number of funds should be sufficient to satisfy legal requirements, but should not be so large as to restrict unduly the flexibility of state government officials in managing the resources available for carrying out programs.

Funds are divided into three budgetary types in the State of Mississippi by legislative action.

1. General Treasury Funds - Those funds established to receive a portion of the State's general tax revenues and to pay the regular operating and administrative expenses of state government. The Legislature appropriates monies from the state General Fund 2999 into various agencies' general funds (2000 series funds).

2. Special Treasury Funds - Those funds established to receive fees, fines, licenses, other special assessments, and taxes designed specifically for an agency as well as revenue received from the federal government, donations, and any other special source of revenue.

3. Education Enhancement Treasury Funds - Those funds established to receive specific tax revenues to support various educational programs.

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.20
SECTION	GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE APRIL 30, 2003

In applying GAAP fund definitions to each of the treasury funds, the following rules apply:

1. In those instances where State General Fund 2999 monies are used to pay programs which for financial reporting purposes are classified in other than the General Fund, reflect expenditure amounts in the designated fund with a corresponding "transfer out" of the GAAP General Fund and "transfer-in" to the reporting fund.

2. When two or more treasury funds are combined in one budget, the funds are classified for GAAP reporting purposesby the predominant fund type within that budget.

3. Reflect as a part of the GAAP General Fund those special treasury funds (3000 series funds) whose revenue isderived from taxation and whose resources are used to support general governmental activities.

4. Special treasury funds (3000 series funds) classified as GAAP General Fund as a result of rule (2) or (3) above should be categorized as unreserved fund balance designated for fund balances of special treasury funds (see account 35500 in Section 25.60.21) to indicate that these funds are not available for general state purposes.

5. Classify each treasury fund in the single fund classification which best defines the status even though a treasury fund might include activities which meet the definitions of more than one fund type.

Funds may also be classified by the source of authority for expenditure of their resources. Appropriated funds are those for which the expenditure of resources requires prior statutory authority in the form of an appropriation. Nonappropriated funds are subject to expenditure authority other than acts of the legislature.

For purposes of reporting in accordance with GAAP, the financial activities of the State have been classified into the following fund categories. College and university accounting is not included in this manual. However, the universities will be included in the State of Mississippi's combined financial statements.

1. Governmental Fund Types - are used principally to account for the ongoing activities of government that are financed with general government revenues in the form of taxes, license fees, grants and entitlements. These funds are accounted for on the modified accrual basis of accounting and some costs ordinarily are not allocated among accounting periods. Instead, fund types generally account for the flow of resources (revenues and expenditures) into and out of the funds. Five types of Governmental Funds are recommended for use by state and local governments:

    a. General Fund - The general fund accounts for transactions related to resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, general government, public safety, health and social services, social assistance, recreation and resources, transportation, and education (other than institutions of higher education). Revenues in this fund are derived from taxes, fees, and other sources that usually are not designated for any specific purposes (for example, licenses, permits or charges for incidental services). Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the general fund consistent with applicable legal requirements.

    b. Special Revenue Funds - Special revenue funds account for transactions related to resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among others, federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

    c. Debt Service Funds - Debt service funds account for transactions related to resources obtained and accumulated to pay interest and principal on general long-term obligations (other than capital leases and compensated absences).

    d. Capital Projects Funds - Capital projects funds account for transactions related to resources obtained and used for the acquisition, construction or improvement of major capital facilities including those provided to political subdivisions and other public organizations (other than those financed by proprietary funds and fiduciary funds).

Such resources are derived principally from proceeds of general obligation bond issues, federal grants and operating transfers from general funds.

e. Permanent Funds - Permanent funds account for transactions related to resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry.

2. Proprietary Fund Types - closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Their activities are usually financed with user charges that are directly related to the services received. The intent of the proprietary activity usually is to recover the cost of operations. However, it is permissible to account for business-type activities within a Proprietary Fund when the purpose is only to provide an improved level of management over costs incurred (e.g., when the government chooses to finance the majority of a utility operation from general revenues). Proprietary Fund financial statements, therefore, report allocated costs, such as depreciation and other operating expenses. They apply accrual accounting principles appropriate for business enterprises. The two types of Proprietary Funds are:

   a. Enterprise Funds - Enterprise funds account for operations where the intent of the state is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic measurement of the results of operations is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

   b. Internal Service Funds - Internal service funds account for the operations of state agencies that render services and provide goods to other state agencies or governmental units on a cost-reimbursement basis.

3. Fiduciary Fund Types - are Trust and Agency Funds that are used to account for assets held by a governmental unit as a trustee or agent for individuals, private organizations or governmental units. A separate category is necessary to distinguish the special fiduciary responsibility for these resources in accordance with specific laws or restrictions. These resources are not available for governmental purposes, but the government must clearly reflect the discharge of its fiduciary responsibilities.

   a. Pension Trust Funds - Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits of the state's public employee retirement systems and the state's deferred compensation plan.

   b. Private Purpose Trust Funds - Private purpose trust funds account for resources of all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

   c. Agency Funds - Agency funds account for the receipt and expenditure of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

BASIS OF ACCOUNTING

The basis of accounting in the State's CAFR, prepared in accordance with **GAAP,** are the modified accrual basis for all governmental fund types, agency, and expendable trusts, and the full accrual basis for proprietary fund types, nonexpendable trusts, and pension trusts.

The basis of accounting upon which financial transactions are recorded prescribe the timing of revenue, expense, and transfer recognition. This, in turn, affects the recording of assets and liabilities and the presentation of financial statements.

The common basis of accounting is cash, modified accrual and full accrual. Each of these is modified by the encumbrance method as explained in this section.

CASH BASIS OF ACCOUNTING

The cash basis of accounting, which is used by the State for statutory budgeting purposes, provides for the recording of revenues when received in cash and the recording of expenditures when paid in cash. Because the cash basis does not facilitate accurate reporting of financial position and is subject to distortion based on timing of transportation, it is considered inappropriate as a basis of financial reporting by the State.

MODIFIED ACCRUAL BASIS OF ACCOUNTING

The modified accrual basis of accounting for state government provides for recognition of revenues in the fiscal year in which they become both measurable and available to finance expenditures of the fiscal year. "Available" means collectible within the current fiscal year or soon enough thereafter, generally within the lapse period, to be used to pay liabilities of the current fiscal year. Revenue is "measurable" if there is enough information to provide a reasonable - although not necessarily precise - estimate of the net realizable revenue to be received. Experience often provides a basis for determining a reasonable estimate. Application of the "measurable and available" criteria requires judgment, consideration of the materiality of the item in question and due regard for the practicality of measurement as well as consistency in application.

The word expenditure is used in the modified accrual basis of accounting while expenses are used when referring to accrual basis. Expenditures are recorded if an agency has received and accepted goods and services.

ACCRUAL BASIS OF ACCOUNTING

The accrual basis of accounting normally requires revenues to be recognized in the fiscal year in which they are earned and become measurable; expenses should be recognized in the fiscal year incurred, if measurable. This is essentially the same manner in which transactions are recorded in the accounting systems of the private sector.

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.40
SECTION	GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE JUNE 30, 1999
SUB-SECTION	ASSET ACCOUNTING	REVISION NUMBER 99-004

ASSET ACCOUNTING

Those funds which are subject to modified accrual or accrual accounting for revenues should recognize accounts receivable when evidence indicates that a valid receivable exists. Recognition of the receivable identifies a resource that can be used to finance operations during the fiscal year. Due consideration should be given to establishing allowances for doubtful accounts.

INVESTMENTS

Investments should be recorded at cost unless there has been a permanent decrease in value of the investment. If this has occurred, the accounts should reflect market value. Increases in market value should not be recorded.

INVENTORIES

Inventories are defined as assets on hand which may be held for internal consumption or for resale to other units of state government and to outside parties.

For governmental funds inventory items may be considered expenditures either when purchased (purchases method) or when used (consumption method), but significant amounts of inventory should be recorded in the balance sheet. If significant amounts of inventories are on hand at year end, they should be disclosed in the balance sheet as an asset with a contra account "fund balance reserved for inventory of supplies" for the total amount of the inventory. This fund balance reserve account indicates that inventories reported do not represent "available spendable resources" even though they are a component of current assets.

Proprietary funds should record inventory as an asset and record the expense on the consumption method.

Inventories for proprietary and governmental funds should be recorded at the lower of cost or market. For the determination of cost, the first-in, first-out method of valuation (FIFO), or any method which approximates FIFO is recommended.

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.50
SECTION	GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE JUNE 30, 1999
SUB-SECTION	LIABILITY ACCOUNTING	REVISION NUMBER 99-004

LIABILITY ACCOUNTING

All legal liabilities of the State of Mississippi and of state agencies should be recorded in SAAS. General obligation long-term debt should be recorded in a separate account group established for this purpose.

A separate account group should be established to reflect the amount of outstanding debt, the amount available and the amount to be provided to retire the debt. Revenue bonds outstanding should be reflected in appropriate funds. Recognition of interest payable is discussed under bases of accounting. Premium and discounts as well as bond issue costs on the sale of general obligation bonds should be recognized immediately upon receipt and should not be amortized. Premiums and discounts as well as bond issue costs on the sale of revenue bonds should be capitalized and amortized over the life of the issue on an approved and fully disclosed basis.

If resources (i.e., federal grants) received are applicable to some future period, the revenue should be deferred until the resources can be used to pay liabilities of the current period.

Accounts payable should be recorded in governmental funds when the goods and services have been delivered and rendered. Other liabilities include amounts due to other funds and accrued liabilities.

DEPARTMENT OF FINANCE AND ADMINISTRATION TOPIC ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.60
SECTION GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE JUNE 30, 1999
SUB-SECTION REVENUE ACCOUNTING	REVISION NUMBER 99-004

<u>REVENUE ACCOUNTING</u>

In the State of Mississippi, all funds except for proprietary and fiduciary funds, recognize revenue in the accounting period in which the revenue becomes both measurable and available to finance expenditures in the current fiscal year.

This is defined as the modified accrual basis of accounting as previously discussed under bases of accounting. The proprietary, nonexpendable trust and pension funds recognize revenue when it is earned (measurable) which is defined as the accrual basis of accounting. Under both bases, however, if revenue is received in a fiscal year prior to the year in which it is earned, the revenue should be deferred.

The State of Mississippi obtains revenues from three general sources: federal grants, state taxes, and other sources. State taxes can be divided into four general types: (1) income, (2) sales, (3) inheritance, and (4) privilege and severance.

INCOME TAXES

The following general accounting policies will be employed with respect to income taxes:

1. Receipts should be recognized as revenue when received with the following exceptions:

   a. Income taxes withheld from the employee's pay and due to the receiving agency in the following month shall be recorded as taxes receivable.

   b. Liabilities will be established for anticipated refunds to be paid in the future on amounts recorded as revenues through the end of the reporting period.

2. Overpayments which are credited against future tax liability will be deferred and recognized in the period to which they relate, if material.

3. Fines, interest and penalties will be recognized when received, unless taxes, interest and penalties have been assessed by the taxing agency.

Income tax payments of taxpayers will be recorded when taxes are received. The State cannot assess taxpayers for underpayment if they have met the legal guidelines via either withholding or estimated payments during an interim period in the taxpayer's year. Such amounts are not measurable as they are dependent upon a final determination of income, not determinable until the end of the taxpayer's year. Income tax other than employer withholding is self-assessed and becomes measurable only when the taxpayer submits a return.

SALES AND EXCISE TAXES

Sales and excise taxes will be recognized as revenue when earned if collection of the tax occurs soon enough after the year end for the revenues to be available to meet current obligations for the fiscal year being reported (i.e., during the lapse period). For the most part, sales and excise taxes are paid within one month of the collection by the retailer and should therefore be accrued. In this context, receipts are considered to be available if they have been collected by an agent of the State (anyone licensed to collect taxes or fees on behalf of the State; this would include merchants who collect sales taxes).

INHERITANCE TAXES

Inheritance taxes will be recognized as revenue at the time the taxpayer's liability is determinable if collection is available within the State's two-month lapse period to meet obligations of the fiscal year being reported.

PRIVILEGE AND SEVERANCE TAXES

Privilege and severance taxes will be recognized as revenue when earned if collection of the tax occurs soon enough after the year-end for the revenues to be available to meet current obligations for the fiscal year being reported. For the most part, privilege and severance taxes are paid within one month of the collection by an agent of the State.

For each of the categories above, revenues recognized should be reduced by the estimated level of refunds and credit memos related to such collections.

FEDERAL GRANTS

There are two major types of awards to the state and local governments (i.e., grants and entitlements).

Grants are a contribution, a gift of cash, or other assets to be used or expended for a specified purpose, activity, or facility. There are two types of grants: capital and operating. Capital grants are restricted by the grantor for the acquisition and/or construction of fixed (capital) assets. All other grants are considered to be operating grants. Block grants should be included in this latter classification.

The second major award category is entitlements. An entitlement is the amount of payment to which the State is entitled as determined by the federal government pursuant to the allocation formula contained in applicable statutes.

Each of the two types of awards are accounted for in one of the three categories of funds (governmental, proprietary and fiduciary) described in sub-section 03.50.20. These may be specified in the award document, statutes or related legislation. Most federal awards will be classified as either general fund or special revenue funds.

Federal revenues may be received at different times within the award cycle depending on the provisions of the award. Expenditures may be funded by an advance, by a letter of credit, or by after-the-fact reimbursements. For governmental funds, revenues should be recognized on grants or entitlements in the accounting period in which they become both measurable and available. In applying this definition, legal and contractual requirements of the award should be carefully reviewed for guidance. If expenditure of the proceeds is the prime factor for determining eligibility, then revenue should be recognized when the expenditure is made since it is then both measurable and available. The different types of terms and conditions used in federal programs make it difficult to follow a single rule for revenue recognition. The key question for each federal revenue source is "when is the state agency entitled to receive the funds?" In most cases, the state agency is entitled to the funds when the expenditures have been made or when the action of the grantor makes the receipt of funds a relative certainty.

DEPARTMENT OF FINANCE AND ADMINISTRATION TOPIC ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.60
SECTION GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE JUNE 30, 1999
SUB-SECTION REVENUE ACCOUNTING	REVISION NUMBER 99-004

The appropriate type of reporting in the financial statements depends on whether the revenue has been received and whether the revenue recognition criteria have been met. If revenues have not been received and the recognition criteria have been met, the State should report a receivable. If revenues have been received but the recognition criteria have not been met, the State should record deferred revenues.

In many cases, a subsequent audit of a grant may result in a disallowance of costs already reimbursed. Such audits may be performed by the grantor or an independent auditor. The potential for such situations should be disclosed in a footnote to the financial statements. The amount of refund, if any, should be recorded as an expenditure, when paid, except when estimated liabilities for repayment which appear imminent should be recorded.

STATE OF MISSISSIPPI
DEPARTMENT OF FINANCE AND ADMINISTRATION

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 03.50.70
SECTION	GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE APRIL 30, 2003
SUB-SECTION	FINANCIAL REPORTING	REVISION NUMBER 03-003

FINANCIAL REPORTING

Financial statements are the means by which the information accumulated and processed in financial accounting is periodically communicated to those who use it, and should present fairly in conformity with GAAP the financial position and the results of operations for a designated period of an individual entity. Effective financial statements should show whether there has been proper stewardship of assets and should serve as useful managerial tools.

The mechanism by which these requirements will be satisfied is the basic set of financial statements. These statements should utilize terminology and classifications which are consistent within the financial reporting structure, and should be prepared on a comparative basis where practicable and meaningful.

DFA will prepare and publish, as a matter of public record, a CAFR that encompasses all funds. The Office of the State Auditor will audit the CAFR in accordance with auditing standards generally accepted in the United States of America. The audited CAFR is to be published prior to January of each year for the previous fiscal year. The content of the CAFR is as follows:

1. Table of Contents

2. Introduction Section - Letter of Transmittal, Officials of State Government, Organization Chart and Certificate of Achievement for Excellence in Financial Reporting

3. Financial Section

   a. Auditor's Report

   b. Management's Discussion and Analysis

   c. Basic Financial Statements

      Government-wide Financial Statements - Statement of Net Assets; Statement of Activities

      Governmental Funds Financial Statements - Balance Sheet; Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets; Statement of Revenues, Expenditures, and Changes in Fund Balances; Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

      Proprietary Funds Financial Statements - Statement of Net Assets; Statement of Revenue, Expenses, and Changes in Net Assets; Statement of Cash Flows

      Fiduciary Funds Financial Statements - Statement of Fiduciary Net Assets; Statement of Changes in Fiduciary Net Assets

      Component Units Financial Statements - Statement of Net Assets; Statement of Activities

      Notes to the Financial Statements

d. Required Supplementary Information - Budgetary Comparison Schedule - Budget and Actual (Non-GAAPBasis) - All Budgetary Funds and Notes; Schedule of Funding Progress and Notes.

e. Supplementary Information/Combining and Individual Fund Financial Statements and Supporting Schedules -

Nonmajor Governmental Funds; Proprietary Funds; Fiduciary Funds; Nonmajor Component Units

4. Statistical and Economic Data - to reflect social and economic data to allow a broader understanding of the environment in which the state operates, as well as historical perspectives and financial trends to assess the fiscal capacity of state government.

The foregoing discussion is by no means exhaustive. Additional statements and reports are prepared as required.